Organizational Structure and Design

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WHAT IS ORGANIZING?

- "Organization is the process of identifying and grouping of the works to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most efficiently".

- Louis A. Allen

FUNDAMENTAL CONCEPT OF ORGANIZING:

- DIFFERENTIATION: It means that an organization is composed of units that work on specialized tasks using different work methods and requiring employees with unique competencies.

- INTEGRATION: It means that the various units must be put back together so that work is coordinated.

NATURE OF ORGANIZING:

1. Group of Persons
2. Common Objectives
3. Division of Work
4. Cooperative Efforts

5. Communication
6. Central Authority
7. Rules & Regulations
8. Dynamic Element

NATURE OF ORGANIZATION:

- **Group of Persons:** An organization is a group of people working together for the achievement of common objectives. The group may be large or small. An organization is a system of cooperative relationships of two or more persons.

- **Common Objectives**: Every organization has a common objectives distinct from personal objectives of the members. The common goal is the basis of cooperation among the members. The objectives of the organization are usually are made explicit

CONTD:

- **Division of Work:** An organization comes into existence when the total task is divided into the members of the group. Division of work is necessary not only because one individual cannot do all the work but specialization results in efficiency and effectiveness.

- **Cooperative Efforts:** The members of an organization are willing to help each other for the achievement of desired goals. Cooperative relationships are stabilized both vertically and horizontally among different units of the organization:

CONTD:

- **Communication:** People who form an organization communicates with each other in order to integrate or coordinate there efforts. The structure must be such that people can perform together efficiently.

- **Central Authority:** In an organization, there is a central directing authority which controls the concerted efforts of the group. The chain of authority- responsibility relationships is known as the chain of command.

- **Rules and Regulations:** For the orderly and systematic working of the members, rules and regulations are laid down and enforced by the central authority.

- **The Dynamic Element:** An organization is not a mere mechanical structure but a living organism arising out of the sentiments, attitudes, and behavior of people. The people are the material of construction that holds the structure together and gives it vitality.

IMPORTANCE OF ORGANIZING
1. Facilitates Administration
2. Encourages Growth & Diversification
3. Optimum Use of Technology
4. Stimulates Innovation & Technology
5. Encourages Good Human Relations
6. Ensures Continuity of Enterprise
7. Coordination

IMPORTANCE OF ORGANIZING:

- **Facilitates Administration:** Achievement of the objectives of an enterprise by providing a framework of coordination and control. It provides a system of authority and network for effective communication. Individual goals can be coordinated towards group goals. A properly balanced organization facilitated both management and operation of the enterprise.
- **Encourages Growth & Diversification:** It has enabled organizations to grow and expand to giant sizes. Systematic division of work and consistent delegation of authority facilitate taking up of new activities and meeting new demands. It provides flexibility for growth without losing control over various activities.

CONTD...

- **Optimum Use of New Technology:** It is made through a sound structure manned with competent employees. In addition, Optimum use of technology permits optimum utilisation of human resources. Sound organization ensures that every individual is placed on the job for which one is best suited.
- **Stimulates Innovation & Creativity:** It stimulates creative thinking and initiative on the part of employees. It provides for effective management of change and responds favourably to changes in environment. It provides recognition for the professional and the specialist in terms of their achievement.

- **Encourages Good Human Relations:** The assignment of right jobs to right person improves job satisfaction and inter-personal relations. Well-defined jobs and clear lines of authority and responsibility ensure good human relations.
- **Ensures Continuity of Enterprise:** It provides scope for the training and development of future management. It provides avenues for development and promotions through delegation and decentralisation.
- **Coordination:** It facilitates order and cohesiveness in the enterprise. Division of labor, better utility of technology and human talent helps to improve the efficiency and quality of work. Clear channels of communication among the members of the organization leads to coordination.

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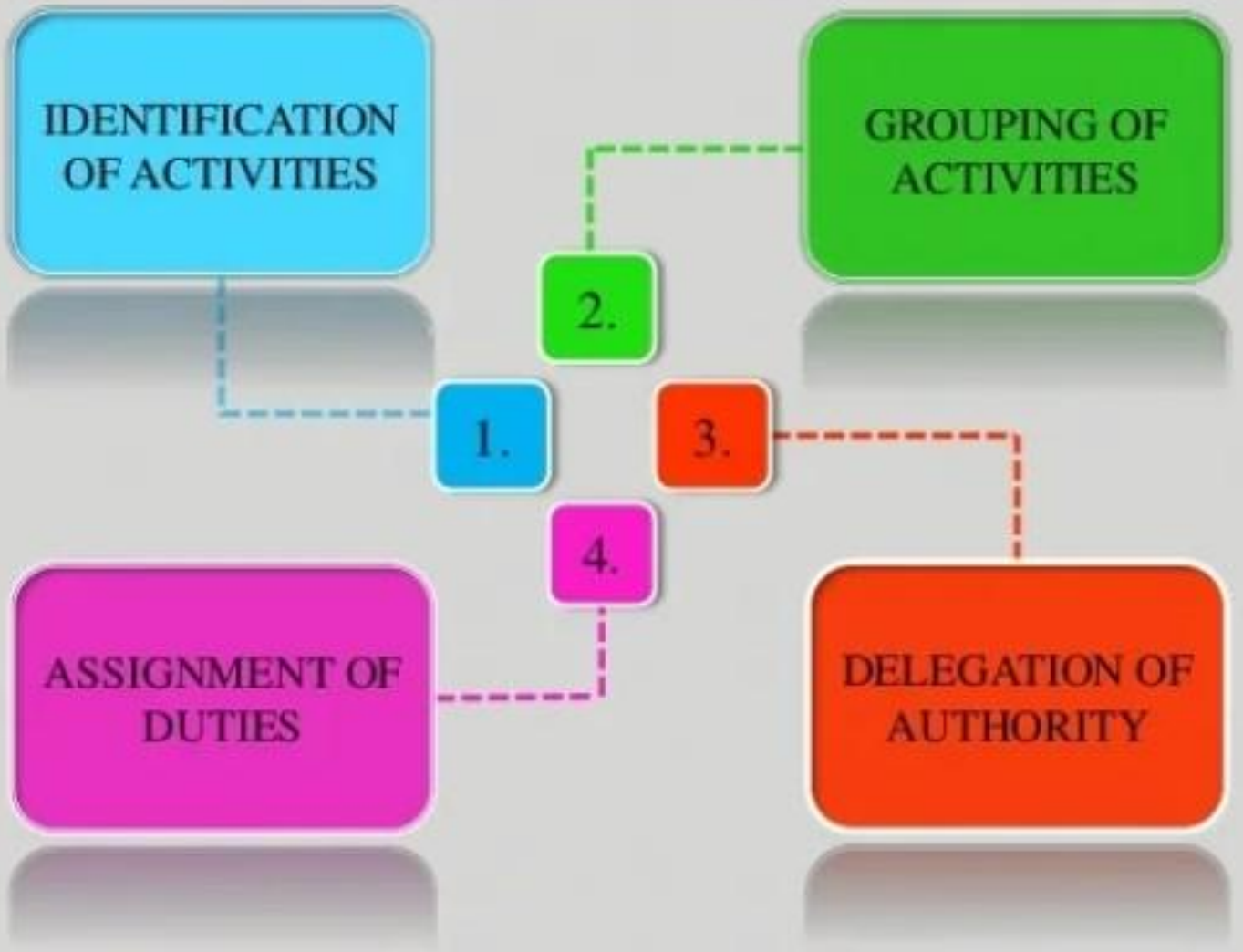
PROCESS:


IDENTIFICATION OF ACTIVITIES
GROUPING OF ACTIVITIES
2.
1.
3.
4.
ASSIGNMENT OF DUTIES
DELEGATION OF AUTHORITY

PROCESS OF ORGANIZING:

1. **Identification of Activities:** First step is to determine the tasks that must be performed to achieve the established objectives. Activities and jobs are building blocks of any organization. The activities to be performed depends upon the objectives, nature and size of the enterprise.

2. **Grouping of Activities:** The various activities are the grouped into departments or divisions according to similarity and common purpose. Such grouping is necessary for the purpose of specialization, coordination and control. It may be grouped on various basis i.e. functions products, territories, customers etc depending on requirements.

3. **Assignment of Duties:** Groups of activities or departments are then allotted to different positions. Every position is occupied by an individual best suited for it. The assignments of activities creates responsibility and ensures certainty of work performance. The process should be carried down to the lowest levels. It is basically done to avoid duplication of work and over-lapping efforts.
4. **Delegation of Authority:** Every individual is given the authority required to carry out the responsibility assigned to him. A chain of command is created through successive delegation of authority. Different positions are linked vertically and horizontally by establishing formal authority. Every individual must know to whom he is accountable and who are his subordinates.

Work Specialization

- Theory of Work Specialization – Breaking down large jobs into smaller components, and delegating different parts to individual workers
- Was explained in his book *Wealth of Nations,* as Division of Labor
- Pin Factory Example
- Saves time by eliminating the need to switch between jobs
- Smith underlined the possibility that workers would become dissatisfied and/or ignorant because of repetition
- Smith stresses that assigning jobs that are best suited to workers strength
- The outcome should be productive labor which should be reinvested in the company

Conclusion

- Theory of work specialization is widely used in every aspect of production and even in the service industry
- Examples include Henry Fords assembly line, Organizational Structure
- Has a great influence on free, mixed and communist economic ideas
- Father of modern economics

Chain of Command

- The line of authority extending from upper organizational levels to the lowest levels, which clarifies who reports to whom.
- Managers need to consider it when organizing work because it helps employees with questions such as “Who do I report to?” or “Who do I go to if I have a problem?”

Authority

- The rights inherent in a managerial position to tell people what to do and to expect them to do it.
- Acceptance Theory of Authority: The view that authority comes from the willingness of subordinates to accept it. It was proposed by Chester Barnard.

Authority

- Barnard contended that subordinates will accept orders only if the following conditions are satisfied:

1. They understand the order.
2. They feel the order is consistent with the organization's purpose.
3. The order does not conflict with their personal beliefs.
4. They are able to perform the task as directed.

Line Vs. Staff Authority

- Line authority entitles a manager to direct the work of an employee. It is the employer–employee authority relationship that extends from the top of the organization to the lowest echelon, according to the chain of command.
- Staff authority: Positions with some authority that have been created to support, assist, and advise those holding line authority

Responsibility

- The obligation or expectation to perform any assigned duties.

Unity of command

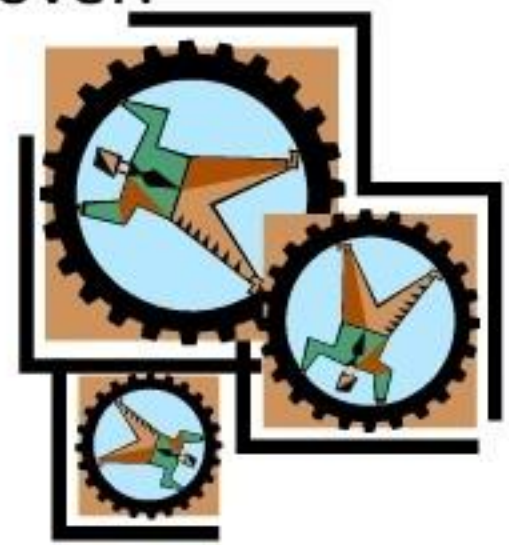
- Management principle that each person should report to only one manager.

Defining Organizational Structure

- Organizational Structure
  - The formal arrangement of jobs within an organization.
- Organizational Design
  - A process involving decisions about six key elements:
    - Work specialization
    - Departmentalization
    - Chain of command
    - Span of control
    - Centralization and decentralization
    - Formalization

Organizational Structure

- Work Specialization
  - The degree to which tasks in the organization are divided into separate jobs with each step completed by a different person.
  - Overspecialization can result in human diseconomies from boredom, fatigue, stress, poor quality, increased absenteeism, and higher turnover.



Organization Structure (cont'd)

- Chain of Command
  - The continuous line of authority that extends from upper levels of an organization to the lowest levels of the organization and clarifies who reports to who.

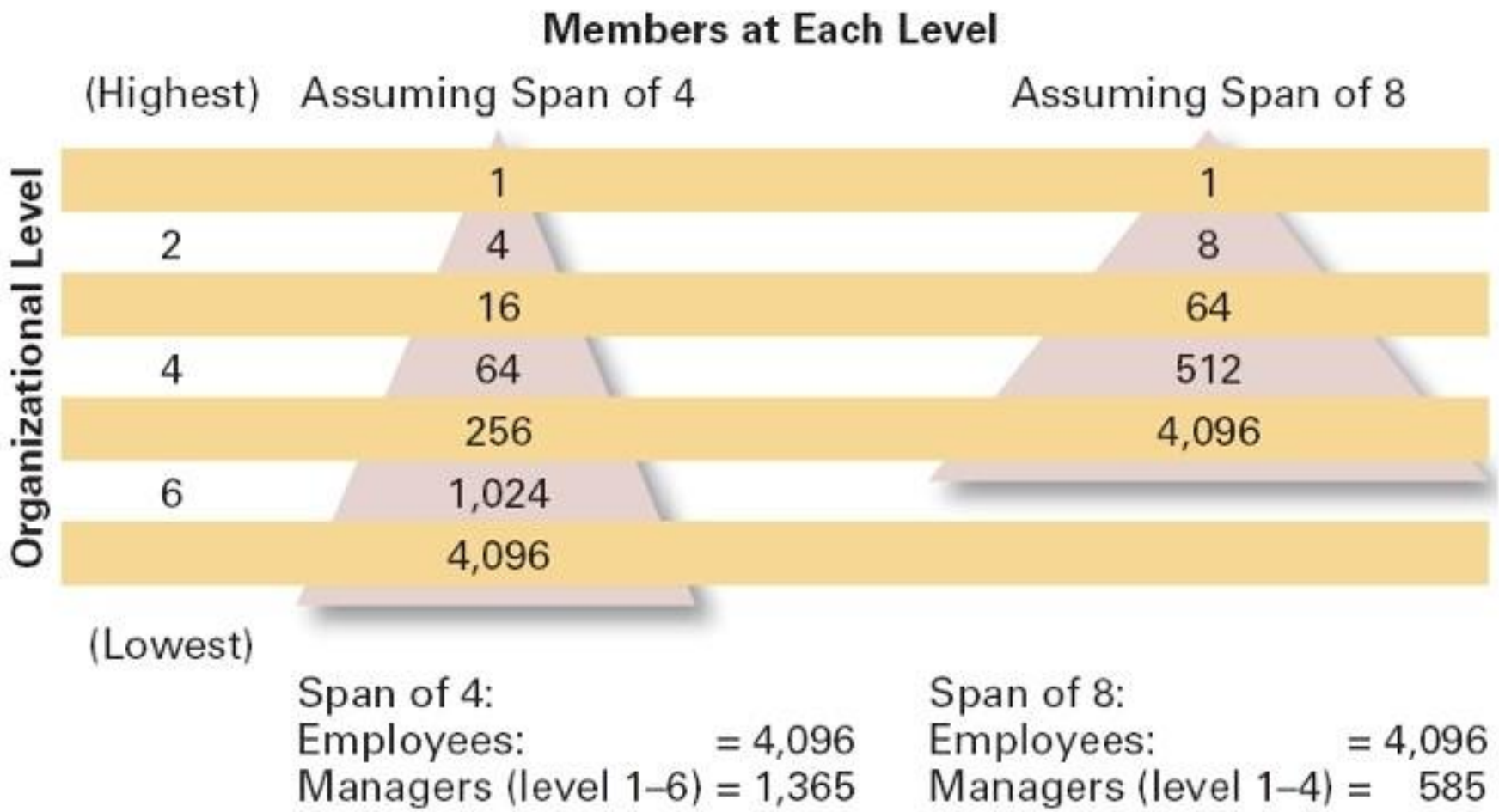
Organization Structure (cont'd)

- Authority
  - The rights inherent in a managerial position to tell people what to do and to expect them to do it.
- Responsibility
  - The obligation or expectation to perform.
- Unity of Command
  - The concept that a person should have one boss and should report only to that person.

Organization Structure (cont'd)

- Span of Control
  - The number of employees who can be effectively and efficiently supervised by a manager.
  - Width of span is affected by:
    - Skills and abilities of the manager
    - Employee characteristics
    - Characteristics of the work being done
    - Similarity of tasks
    - Complexity of tasks
    - Physical proximity of subordinates
    - Standardization of tasks

Exhibit 10–3 Contrasting Spans of Control



Organization Structure (cont'd)

- Centralization
  - The degree to which decision-making is concentrated at a single point in the organizations.
    - Organizations in which top managers make all the decisions and lower-level employees simply carry out those orders.
- Decentralization
  - Organizations in which decision-making is pushed down to the managers who are closest to the action.
- Employee Empowerment
  - Increasing the decision-making authority (power) of employees.

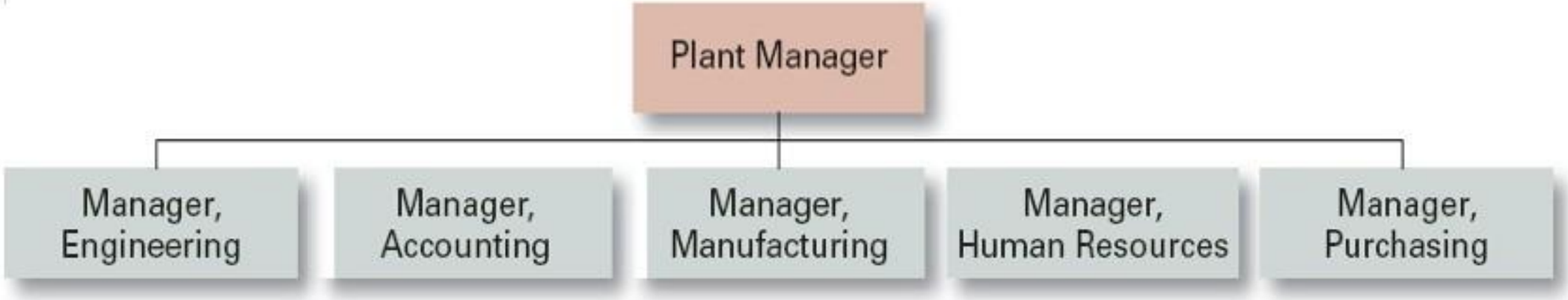
Organization Structure (cont'd)

- Formalization
  - The degree to which jobs within the organization are standardized and the extent to which employee behavior is guided by rules and procedures.
    - Highly formalized jobs offer little discretion over what is to be done.
    - Low formalization means fewer constraints on how employees do their work.

Functional Organizational Structure

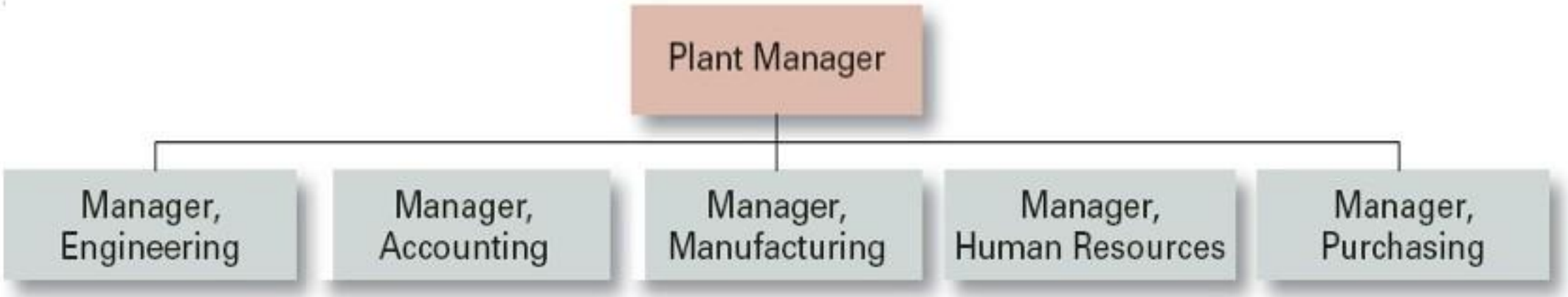
- Functional structure is created by grouping the activities on the basis of functions required for the achievement of organizational objectives.
- Functions are classified into
  - "Basic"(essential: e.g. production, marketing, in manufacturing organization),
  - "Secondary"(subparts :e.g. marketing is further divided into market research, advertising, sales…etc) &
  - "Supportive" (e.g. finance, accounting, personnel, industrial relations)functions according to their nature and importance.
- Authority relationships in functional structure may be in the form of line, staff & functional.
- Required when small org. grows & business activities become more & more complex.
- Works better if org. has one major product or similar product line.

Functional Departmentalization



- **Advantages**
  - **Efficiencies from putting together similar specialties and people with common skills, knowledge, and orientations**
  - **Coordination within functional area**
  - **In-depth specialization**
- **Disadvantages**
  - **Poor communication across functional areas**

Functional Departmentalization



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- Disadvantages
  - Poor communication across functional areas
  - Limited view of organizational goals

Characteristics of functional structure:

1. Specialization by functions

1. Emphasize on sub goals

1. Pyramidal growth of the organization

1. Line and Staff division

1. Functional authority relationships among various departments.

1. Limited span of management and tall structure.

Divisional Structures

division is a collection of functions working together to produce a product.

- Divisions create smaller, manageable parts of a firm.
- Divisions develop a business-level strategy to compete.
- A division has marketing, finance, and other functions.
- Functional managers report to divisional managers who then report to corporate management.

- Product structure: divisions created according to the type of product or service.
- Geographic structure: divisions based on the area of a country or world served.
- Market structure: divisions based on the types of customers served.

Geographic Structure

- Geographic structure groups employees together based upon specific geographic location. This is often used by large companies that operate in many areas. (Northern division and Orissa division etc.)
- Eg: an automobile company with a divisional structure might have one division for SUVs, another division for subcompact cars, and another division for sedans. Each division would have its own sales, engineering and marketing departments.

Geographical Departmentalization

- **Advantages**
  - **More effective and efficient handling of specific regional issues that arise**
  - **Serve needs of unique geographic markets better**
- **Disadvantages**
  - **Duplication of functions**
  - **Can feel isolated from other organizational areas**

Product Structure

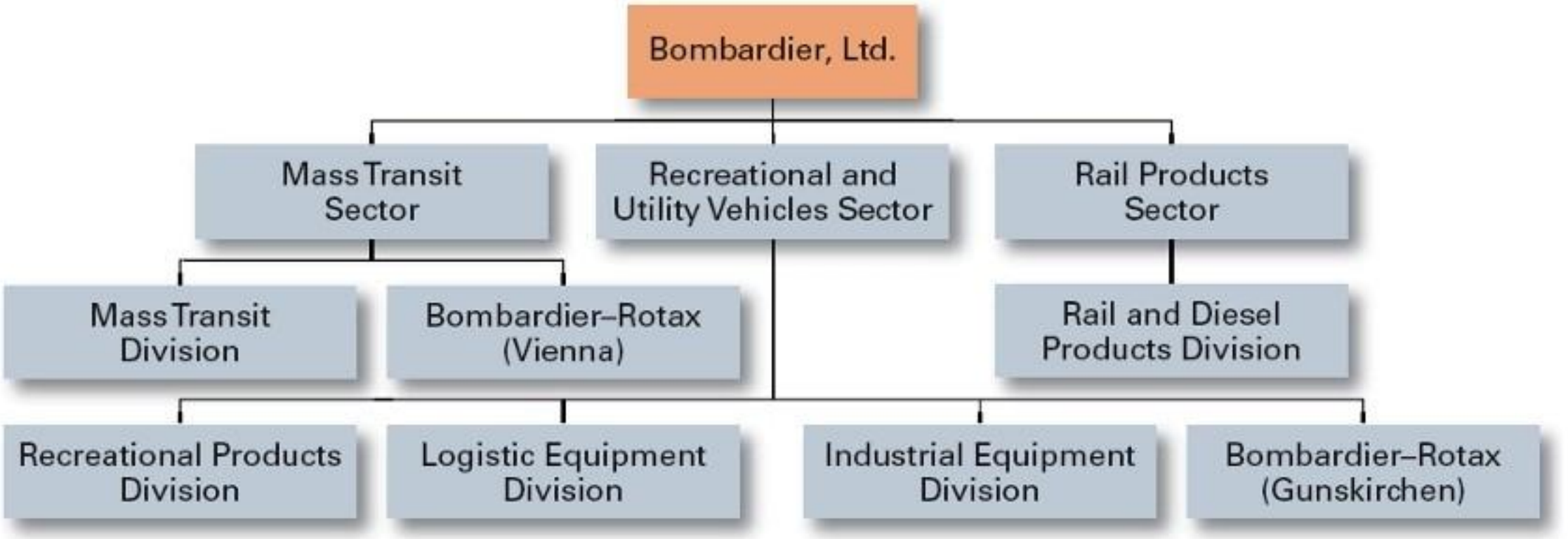
- Product departmentalization involves the grouping of all activities necessary to manufacture a product or product line.

- Preferred for product expansion & diversification when manufacturing & marketing characteristics of each product are of primary concern.

- Used when the product is relatively complex & a great deal of capital is required for plant and facilities.

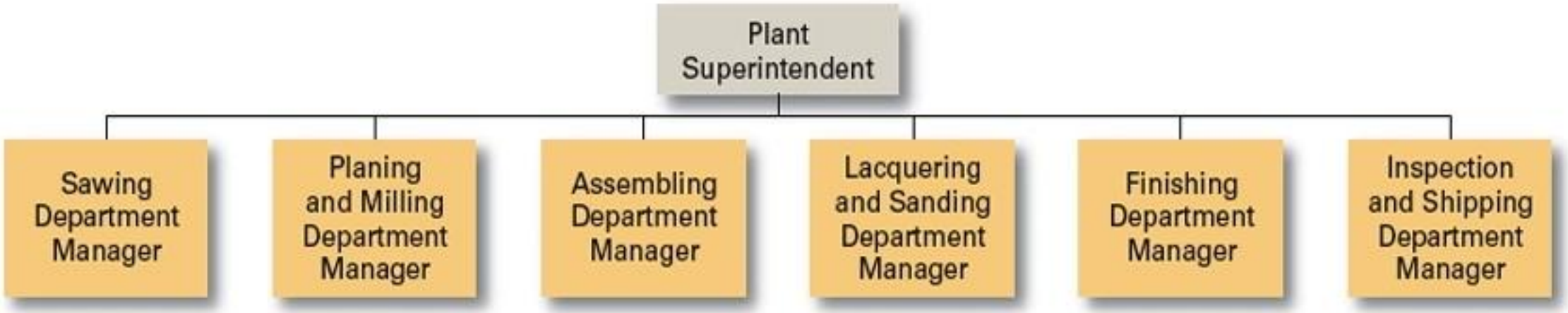
- Each product division contains the functions necessary to that service the specific goods or services it produces

Product Departmentalization



+ **Allows specialization in particular products and services**
+ **Managers can become experts in their industry**
+ **Closer to customers**
– **Duplication of functions**
– **Limited view of organizational goals**

Process Departmentalization



+ More efficient flow of work activities
– Can only be used with certain types of products

Customer Departmentalization

+ Customers' needs and problems can be met by specialists

- Duplication of functions

- Limited view of organizational goals

Contemporary Organizational Designs

- Team structures
- Hybrid Organization
- Matrix and project structures
- Boundary less Organization
  - Virtual Organization
  - Network Organization
  - Modular Organization
  - The Learning Organization

Self-Managing Teams

- Customer focus and fast changing environments require decisions at lower levels in an organization
- Decentralizes decision authority in the teams
- Decision authority in these teams can focus on customers, processes, and product design

Self-Managing Teams (Cont.)

- Often cross-functional membership
- Helps flatten an organization by removing a layer of management
- Results in a nimble organization that can respond to fast changing customer needs

Hybrid Organization

- Hybrid design uses both functions and divisions
- Managers use a hybrid design to get the benefits and reduce the weaknesses of the two configurations
- The divisions decentralize some functions, and the headquarters location centralizes others
- Centralized functions often are the costly ones

Hybrid Organization

- People in different parts of the organization fulfill different requirements
- Functional areas reward technical expertise
- Functional specialists often support the divisions
- Divisions do the primary work of the organization

Hybrid Organization

- Strategy: Focused on many products or services
- External environment: Fast changing, moderate to high uncertainty, complex
- Technical process: Both routine and nonroutine; high interdependence with functions and divisions
- Size: Large

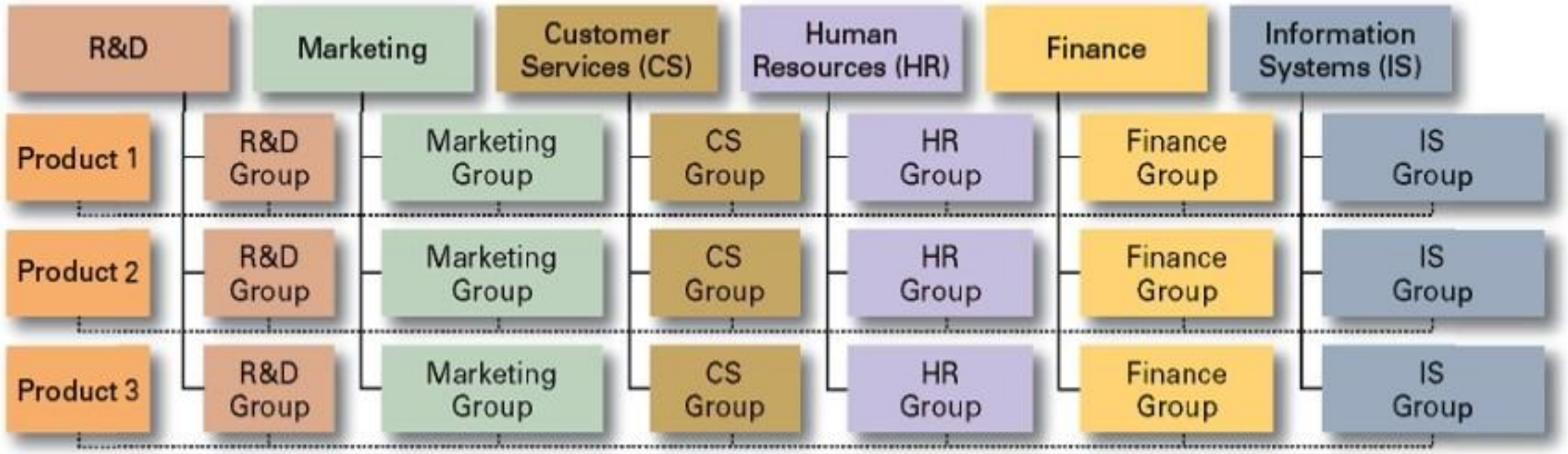
Hybrid Organization

- Strengths
  - Focuses on products, services, and customers
  - Adapts well to complex environments
  - Economies of scale: expensive shared resources are centralized and support all divisions
- Weaknesses
  - Focus on division goals can lose total organization view
  - Non-uniform application of organizational policies
  - Potential for high administrative overhead if staff expands without control
  - Potential conflict between division managers and corporate headquarters. Managers want autonomy; headquarters wants control

Matrix Organizational Design

- Used when two sectors of the external environment demand management attention
- Typically responding to the customer and technical parts of the environment
  - Customers have special needs
  - Technology changes fast
- Emerged during the 1950s within the U.S. aerospace industry

Exhibit 10–9 An Example of a Matrix Organization



Boundary less Organization

- An flexible and unstructured organizational design that is intended to break down external barriers between the organization and its customers and suppliers.
- Removes internal (horizontal) boundaries:
  - Eliminates the chain of command
  - Has limitless spans of control
  - Uses empowered teams rather than departments
- Eliminates external boundaries:
  - Uses virtual, network, and modular organizational structures to get closer to stakeholders.

The Virtual Organization

- A temporary network of companies or people that focus on reaching a specific target
- Information technology links members into a network no matter where they are in the world
- Enter agreements to get needed skills or resources
- Little direct control over functions done by other members of the network
- An organization that consists of a small core of full-time employees and that temporarily hires specialists to work on opportunities that arise.

The Virtual Organization (Cont.)

- Features a need for high trust among members
- Need conflict management and negotiation skills
- Interdependent in reaching a mutually desired goal

Organizational Designs (cont'd)

- The Learning Organization
  - An organization that has developed the capacity to continuously learn, adapt, and change through the practice of knowledge management by employees.
  - Characteristics of a learning organization:
    - An open team-based organization design that empowers employees
    - Extensive and open information sharing
    - Leadership that provides a shared vision of the organization's future, support and encouragement
    - A strong culture of shared values, trust, openness, and a sense of community.